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Industrial Policy

OF

INDIA

INDUSTRIAL POLICY OF INDIA.

By the same Author —

- 1 *Economic Planning.*
 - 2 *Cottage Industry and their Role in National Economy.*
 - 3 *Our Economic Problem*
 - 4 *Ghandham Institution of Wardha.*
- etc, etc

CONTENTS

Chapter	Page
I Tariffs and Industry .	1
II Foreign Capital.	16
III Labour Unrest	28
IV Cottage Industries and Planned Economy	42
V Location of Industry	48
Appendix.	
The Indian Cotton Textile Industry	1

PREFACE

An attempt has been made in this brochure to deal with the pressing problems which we have to consider in formulating an industrial policy for India. The two-months old Government of Free India is saddled with a number of issues surprising in number and bewildering in their variety. Every one now says "Industrialise or Perish". We have to remember that while we have to industrialise the country in order to provide for the many sided development of the country and reduce the pressure of population on land, at the same time, the problems associated with it have to be considered in their proper perspective. In the matter of tariffs, foreign capital, labour unrest, or location of industries we must evolve a correct policy suitable to our needs. This brochure helps towards an understanding of these problems, the author feels that his labour is more than repaid. His thanks are due to the publishers, for expediting its publication.

Raykot
Oct , 24, 1947

R V Rao

CHAPTER I

TARIFFS AND INDUSTRY

While England's and other countries, the problem facing them is one of developing exports, our problem is to expand industrial production and diversify our national economy. The policy of industrial development, through protective tariffs cannot be legitimately objected by any body on the plea that, it runs counter to the principles of the Draft Trade Convention. After all our aim is to create domestic equilibrium, raise the sub-human standard of living and volume of employment and finally to ensure a stable expansion of trade ¹. We often hear a lot about equal access to raw materials and markets but very little is said about undeveloped countries and their right to equal access to the capital goods of the world.

1 As the League of Nations publication on International Currency Experience observes: "It is only under conditions of active home demand and full domestic employment that countries can be expected to welcome imports and to regard their exports not as a means of providing employment but as an inevitable cost of the goods desired."

One can understand the anxiety of the industrially developed countries to have raw materials and markets. But from the point of view of social justice in international economic order, the demand of the economically backward countries to have capital goods for their economic development should also receive equal consideration. It should not be forgotten that, at present the power of any nation depends upon the industrial development of the country and upon the capacity of the government to satisfy the growing needs of the people. The ordinary postulates of international trade do not apply in a world that is entangled in a maze of tariffs and trade restrictions.

That is why it is rightly held that the primary aim of international organisations and plans is "the fuller utilisation of natural resources and maximum employment of man power with a view to expand production and raise the standards of living of the people throughout the world and especially the economically underdeveloped countries." A time has come when in the interests of international peace, the more advanced countries should even undergo some sacrifice for the common good. To ignore the varying levels of economic development is to create not uniformity but inequitable conditions leading to exploitation of backward countries. It should be remembered that, undeve-

oped countries want to have diversified economic life so that the pressure of population on land can be reduced. Indeed, industrialisation increases the purchasing power of the agriculturists as much as agricultural development supplies the necessary markets for manufactured goods. It is rightly pointed out that in the case of essential industries, the slogan 'national self sufficiency becomes a duty'. It is often forgotten that trade depends upon the purchasing power of the countries even more than tariffs to some extent.

It does not require an argument to show in any plan for the economic development of India, industrialisation occupies a prominent place because it is only in this way that we can have a balanced economy for India. Further, the pressure of population on land can be reduced only by this way. We can promote not only the investment habit but also increase the national income. India can no longer continue to remain a predominantly agricultural country. The arguments for perpetuating an economic organisation based on purely agriculture are losing ground. Indeed, we need a many sided development of agriculture and industries, properly planned and executed. In this connection, we should not forget our natural

² Details are given in John Mathai's Tariffs and Industry Pages 14 to 19

resources and the home market for our manufactures. It may also be mentioned that a highly industrialised India will be true to the traditions of the historic past and does not try to exploit the interests of other countries.

Thus, it has been shown that industrialisation is a matter of great importance to the economic progress of India. Tariffs, as a means of assisting the development of industries require close examination. Commercial policy is an integral part of economic policy. It is rightly said that expansion of trade is the key to world peace and higher standard of life. In other words, there should be a rational economic policy in any scheme of international economic co-operation. The State in India has failed so far to have a definite economic policy in keeping with our needs. The tariff policy which is an instrument of commercial policy was till now a 'melley of incongruities and inconsistencies'.

II

Tariffs and their place in Modern Commercial Policy

Some people are opposed to tariffs and talk in high terms about international economic co-operation based upon free trade. Now that ours is a free country, it is better we consider the economic history of other industrial countries and profit by their experience. A vigorous policy of protecting

home industries has become the rage of the modern world and the prospects of free international trade do not seem to be bright. The problem of industrial protection is of paramount importance to us. Frederick List (1811) observed that economic laws are relative to the stage of economic development of a particular country and that commercial policy should be based upon the stage of economic development. His was a powerful plea for a protectionist policy. His view was that when any nation was reached a high stage of progress, Free trade was best but such a policy failed to give the necessary conditions for the development of countries which had the requisite capacities but was backward. None could have expected in 1870, that by adapting a policy of protection, it would become the leading economic power in half a century. Thus, List exercised a powerful influence in shaping the commercial policy of Germany.

There has been in recent years, an economic war, the stage being shifted from the battlefield to the sphere of trade and commerce. Indeed, a moderate policy of protection has helped the most efficient utilisation of natural resources of several countries. Thus, tariffs have begun to play an

3 W. Cunningham The Rise and Decline of Free Trade Movement Page 28

4 R. M. Findlay Britain under Protection Page 216.

important part in determining the flow of international trade. As Mr. Fetter observes, "The tariff is important as a public issue today, not as a problem in the raising of revenue but as a problem in the use of the power of the state to direct economic life" ⁵

No country now agrees to allow its essential industries to be subjected to unrestricted foreign competition. It is rightly argued that the problem before us is the reconciliation of the claims of the various countries for self sufficiency with the equally important need for raising the purchasing power of the people. While a country should co-operate with other countries, still, there is a need for following the tariff policy suitable to our needs.

III

Need for Protectionist Tariff

The economic arguments for protection may now briefly be stated. Nascent industries can grow to their full stature only by this method. It is true that, protective duties may first increase the price of manufactured goods but in course of time, goods can be produced cheaply at home ⁶. The ultimate

5 F W Fetter The New Deal and Tariff Policy Page 3

6 F L National System of Political Economy Page 144 145

gain makes up the immediate loss.* We need not examine here tariffs for revenue and bargaining purposes as we in India are not interested in such. Ours is a struggle for existence. It is needless to mention, that a full and frank discussion between the various countries will remove a lot of misunderstanding in the commercial relations of various countries. Further it leads to diversification of our industries which is of paramount necessity to us in India. As long as in 1880, The Famine Commission suggested diversification of occupations through which the surplus population might be drawn from agricultural pursuits and find means of subsistence in manufactures.⁷ Indeed economic protectionism is directed to no other end than the securing of the domestic market to the businessman of the country by political means.⁸ Professor Harberler thinks that agricultural countries arm themselves with tariffs to be used as retaliation against industrial countries.⁹

Critics of economic protectionism argue that it

* Pigou in his *Protection and Preferential Duties* rightly observes that a nation like an individual may be well advised, at certain stages of history to dispend with the present wealth for the sake of either education or insurance. See also Bastable *The Commerce of Nations* Page 135

7 Sir J C Cozage *Indian Fiscal Problem* Page 8

8 J Grunzel *Economic Protectionism* Page 132.

9 Harberler *The Theory of International Trade* Page 243

involves loss to consumer* They say that tariff is the mother of trusts and combinations. It leads to stagnation of Industry. They also refer to the dangers of political corruption. Finally, it is argued that tariffs are a danger to world peace¹⁰ However, it may be said that protection is the purgatory through which the nation must pass before reaching the heaven of well-developed industrialism. We should not care for minor losses, provided we get maximum gain.

IV

Problem of Tariff Policy

The problem of tariff policy has again come to the forefront and there is a certain amount of truth in the saying that our tariff policy should, at least for some years to come, be protectionist. It is rightly said that if we devise an appropriate tariff policy, it can safely be used as a 'weapon in the armoury of planning'. It is agreed on all sides that protection is the common means adopted for the development of industries. By protective tariff, (we mean 'imposing of import duties on foreign goods for a definite period ensuring the

* Dr. John Mathai says that they are mostly borne by the more well-to-do classes in the country. Tariffs and Industry. Page 14

10 The Report of the Indian Fiscal Commission (Para 86) says that owing to the predominance of the rural classes such a danger is not so serious.

home industries freedom from foreign competition for that period and attracting indigenous enterprise in that industrial field"), American and German industries developed under high tariff walls. Even England, the classic home of free trade, had to go protectionist during the early thirties of this century in order to recover from depression although words like 'safeguarding' might have been used. Protection is, indeed, an accepted method to bring about an industrial development.

For a long time, the principle of free trade was forced upon us which provoked in wrath of Indian Economists like Ranade. One of the sorry and bitter chapters in the Indo-British connection has been the conflict over tariff policy¹¹. When Britain herself gave up the policy of free trade, the policy of discriminating protection was thought to be good for India.

Indian opinion feels that, full protection alone will be a panacea for all the economic ills of the country. Its dangers are really exaggerated and costs magnified. The Fiscal Commission recommended for India a policy of discriminating protection. According to this policy, protection to each and

11 For over 50 years India was compelled to follow a policy of free trade for the benefit of the British industrialist and in opposition to the wishes of people. Dr W Cunningham. The case against Free Trade, Page 67.

every industry should not be granted indiscriminately but each case should be considered on its own merits so that the dangers inherent in protection and the sacrifices involved may be balanced. Even though several industries stood to gain as a result of the Government adopting this policy, still one should say that it was not an adequate policy. The conditions imposed were (i) the industry should have natural advantages such as the availability of raw materials home markets, etc (ii) the industry should show that for its development protection is indispensable and finally (iii) the industry must be such that it needs protection only for a temporary period and that ultimately it will be able to stand on its own legs. The Fiscal Commission recommended the appointment of a Tariff Board to consider the claims of each industry for protection and to make suitable recommendations.

Working of the Principle.

Even though fifty industries were given protection and even though they made good progress several people rightly criticise the policy as "all discrimination and no protection". The conditions imposed were very stringent. Under the conditions that the industry should have abundant raw materials before it could claim protection, glass industry was not given protection

because soda ash had to be got from abroad, a commodity which was later produced in India itself. There were instances of protection being withdrawn on the plea that the industry was not well organised. The non-discrimination clauses have also helped the development of industries with foreign capital and the Match Industry is a good example. Really speaking it was the Indian Match Industry that was meant to be protected. That is why Prof B P Adarkar observes "the discriminating protection in India has vouchsafed nothing better than a perfunctory assistance indifferently and grudgingly rendered to industries whose subsequent development has been left to take its own course". The policy of discriminating protection did not indeed yield fruitful results. The reason is that the conditions laid down were anomalous and severe. Very few industries even in foreign countries can satisfy all these conditions and they would have hardly thrived if those countries had adopted such principles.

Further the working of *ad hoc* Tariff Boards of the discriminating protection era clearly show that effective and timely help could not be rendered to the industries. The members are appointed by the irresponsible executive and people who 'bask in the official sunshine' cannot be expected to take an independent attitude. For every industry, a

new Tariff Board is created. In some cases, the industry may be dying but no immediate relief can be given under the statutory limitations. In some cases the recommendations of the Tariff Board were even turned down by Government. Several industries like automobiles, ship-building, electrical goods, etc. require protection but their case could not be considered.

If we first consider other countries like Australia or the U S A, we find that there are permanent Tariff Commissions which have done much for the industrial development of those countries.

We must not fail to remember that economic policy is now becoming intensely nationalistic and the existing policy has become out of date and needs revision. After all, India fulfils all the requirements of what Pigou calls 'a backward agricultural country' wishful to develop manufactures. The prosperity of U.S.A., Germany, and other countries is attributed to protectionist policies. Thus discriminate protection of a piecemeal variety hardly meets our needs. What is needed is a comprehensive visualisation of our industrial problem as a whole.

The correct purpose of an industrial policy is to break this vicious circle. Protection of Indian

industries must be regarded not as an instrument of industrial policy but as one assisting the economy as a whole. Prof. Adarkar says that it is from this point of view that a full-fledged system of protection, which does not make a nice calculation of burdens, has immense utility to Indian economic structure.¹² A time has come when Free India should no longer adapt self-denying ordinances. We must have a more forward policy intended to give employment to our teeming millions.

Industrial policy rightly conceived can be a potent influence for national economic planning. Self-sufficiency is forced upon India by a Tariff made void. More than ever before, there is a need for the reorientation of our industrial policy, frontal attack on un-utilised resources and solving the riddle of Indian poverty.

The National Government should not have a forward policy of industrial development. Many of our industries do not stand in need of protective tariffs. In so far as international trade is concerned, India should have its right to develop its key industries sufficient for a country of her size, popu-

12. B. P. Adarkar, Fiscal Policy of India, Page 443. According to the Indian Tariff Policy, it has been a medley of incongruities formulated and worked to the utter neglect of national needs and aspirations. India has all along been made to follow a commercial policy inconsistent with her economic needs.

lation and resources. It is unfortunate that, too little attention is paid to underdeveloped countries. We should not allow our case to go by default. Very soon there is bound to be severe competition. Our anxiety should be to choose a policy which will not jeopardise our interests and at the same time dislocate world trade. Taking it for granted that, there will be drive in the direction of industrialisation, we must know that the chief bottle neck is capital goods which we have to get from abroad. If we are to secure a proper balance between agriculture and industry, we have to depend upon import of capital goods. The cost is bound to be in excess of our credit. During this period, we have to restrict import of consumable goods which we can produce in India. This will enable us to conserve our exchange resources for the purchase of capital goods ¹³. It is needless to mention that our primary anxiety should be to establish key industries which go a long way for further industrial development and these should be protected at all costs ¹⁴. It does not mean that we should not have international economic outlook. After all,

13 The new import policy of the Govt. of India which came in force from July 1st is a part of the drive to conserve India's foreign exchange resources by restricting the import of non-essential consumer goods. It does not restrict the import of capital goods which are defined as any plant worth more than Rs. 25,000/-.

14 The Australian Tariff Board considers it necessary to burden the community permanently with high protection for industries essential for national security.

our interests and world interests can easily be reconciled

VI

Mechanism of Protection

We want a permanent tariff board so that there can be consistency of decision and continuity of policy. The *ad hoc* tariff boards were suffering from several handicaps which include narrow scope of functions, uncertainty of tenure, lack of initiative. The new Tariff Board should have a new outlook. The functions of the Tariff Board should also be widened and it should be authorised on its own initiative to inquire into the condition of industries. Prof C W Vakil rightly observes that the Tariff Commission should be permanent and make a continuous study of problems of trade and industry.¹⁵ He suggests that it should consist of five persons who should be economists, persons with experience of commerce and industry or technical experts. After all economic policy is a technical affair.

VII

Concluding Observations

The Government should announce long term tariff policy forthwith. India should make it clear that in any international trade agreement, she has

¹⁵ Article in Liberty Number of National Standard Page 8

to make her own tariff arrangements. She should have her own right to regulate its fiscal policy and protect her nascent industries. Industries like Iron and Steel are of great necessity for defence as well as the well being of the people. As Sir Shanmukham Chetty observed "we can not subscribe to the doctrine of lowering the tariffs if India aspires to become a great industrial country." We do not want to protective tariffs either as a bargaining weapon or to be used indiscriminately. What we want is domestic equilibrium. The true basis of protection for India is the many sided development of the people. After all, India is suffering from the evils of an unbalanced economy. The key industries which help to develop our industrial potentialities and industries which give high employment should be protected. India inhabited by one fifth of human race can be of tremendous value both to herself and the world if development proceeds on lines best suited to her own conditions.

CHAPTER II

FOREIGN CAPITAL AND OUR INDUSTRIAL FUTURE

The Indian Merchants Chamber did well in expressing its deep concern over reports about arrangements for the development of Industries in India on the basis of agreements entered into with foreign industrialists for participation both in capital and management and in other directions. It rightly pointed out that the general feature of all such experiments is that foreign interests are allowed a share in ownership, control and management of such undertakings, a development which is as unhealthy as it is likely to have far-reaching repercussions in future. It is good that the Chamber urged the Government to enunciate their policy in regard to this vital issue. An attempt will be made in this chapter to deal with the pros and cons of the problem.

It is a matter of common knowledge that the efficiency and size of the productive organization depends upon an adequate supply of capital which

determines, so to speak, the productive capacity. In our country capital is of two kinds—indigenous and foreign. Though, it is a matter of great regret that, the exact estimates of foreign capital are not available, still we can say that it preponderates. Professor B. P. Adarkar observed that it could be anything between 800 and 1200. Since the Indian capital was suspicious because it was not sure of the help of the Government, foreign capital came to invade the country in the shape of loans and investment. The former is not so dangerous as the latter because the latter is more often accompanied by control etc. It is a good sign of the times that Indian economists have begun to take exception to such capital and the present conditions make us to consider the problem and its effects upon our economic life, so that India may not stand to lose in the post-war world. It is hoped that the Reserve Bank will collect statistics relating to foreign capital.

The parallels between the development in the spheres of Foreign Capital in China and India clearly show that unless we consider this problem and take adequate steps the industrial future of India will be dark. Day by day are we getting more and more instances of collaboration between Indian and British industrial combines as for example the Birla Nuffield Combine for the manufacture

of motor cars, the Tata-Imperial Chemical Industries scheme for the setting up of a dye-stuffs industry in India and host of others which are slowly taking place and coming in close succession. These may be innocent looking on the surface and are generally supported in the name of industrialization. A little thought will make us feel that in all these cases, the true interests of the people are sacrificed to the interests of the few. Such arrangements are likely to strengthen our economic fetters. It is high time that we realize that we want to plan the economic development of India for glory and not bondage and that we should not mortgage our industrial future.

It is a pity, details are not available for public discussion and it is high time that the industrialists realised their responsibility to the public and explored the pros and cons of the question. When the Government sponsored delegation of the Indian industrialists was touring in England and the U S A it was stated in a section of the Indian press that "Their objective was to bargain for terms with the industrialists and manufacturers of those countries for the joint exploitation of India by foreign and indigenous capital." When this matter reached the notice of Mahatma Gandhi, he came forward saying that they should not enter into such a shameful deal. The consensus of opinion was that control of Indian

Industry directly or indirectly by foreigners should be refused if it was a condition to grant of concessions and control to foreigners. The resolution passed by the Congress Working Committee represents the same view and it is really strange how our industrialists have not considered the problem in its proper prospective.

Dr. Loknathan who accompanied the delegation in a recent broadcast from the All India Radio, Delhi observed, "The terms of co operation which we have been prepared to offer are found to be not sufficiently attractive. we would also allow some financial participation by British and U S A capitalists provided control and management are retained in Indian hands. But they say that unless they have a determining voice in the maintenance of production standards and the quality of goods that are manufactured, their goodwill and reputation, built after years of toil would suffer. However, there are some who may be willing to enter into participation with India on a minority basis. The proposed collaboration, the present writer feels, will lead to the domination of Indian interests by foreign interests. India has to guard herself against the dangers of foreign concerns taking shelter under protection and establishing in India as 'India Limited'. The Bombay Industrial and Economic Inquiry Committee was constrained to remark that

the competition of India Limited is a very real one. As they observe "If these large foreign concerns are permitted to establish themselves without reasonable and effective limitation," our industrial policy to encourage the establishment of small concerns would be frustrated. What a pity it is we are not yet alive to the menace of "India Limited" and that we have not yet realized that self help is the best help. If we are really anxious to start new industries, better we import foreign experts.

Even the Fiscal Commission observed that foreign capital is distrusted because non industrial interests, if it is feared, would work under the shelter of protective policy and work against the interests of the country*. Further, they would refuse to give opportunities to receive the necessary training. Such capital brings along with it many economic and political disabilities. Unfortunately the majority opinion was in favour of foreign capital. But the minority opinion in their minute of dissent pointed out that we should not mix loan capital with ordinary capital and the conditions with regard to foreign capital invested in Indian concerns should be (1) the company should be registered in India with rupee capital, (2) there should be reasonable proportion of Indian directors on the board and

* It is generally felt that the advantage of protection to the nation would be largely cancelled if foreign capital and enterprises were allowed with out hindrance and take shelter behind the tariff wall.

(3) reasonable facilities should be given to Indians for receiving the necessary training

The same problem was considered by the External Capital Committee in 1925 and it observed, "Where investment of foreign capital carries with it the control of an undertaking, we consider it reasonable that, when Government grants particular concessions to the industry, it should exercise such control over the undertaking as will ensure that the benefits of the concessions accrue primarily to the country." It is really unfortunate that none of the recommendations were implemented. On the other hand according to the Government of India Act 1935, British companies carrying on business in British India are entitled to subsidies to the same extent as companies incorporated in British India. In other words, we cannot discriminate against non-Indian interests.

Main Arguments Against Foreign Capital

It may be pointed out that the main argument against the use of foreign capital in India is that it draws away and out of the country the profits from year to year which will be utilized for their own development, but if it is in Indian hands, the profits can be used for Indian economic development. Further, Iraq follows the trade and Egypt and China also suffered on this account. It is also

said that there is not much of difference between exporting raw materials and the utilization of these raw materials by industries inside the country controlled by the foreign capitalists. The only difference is that they employ a few Indian hands. The foreign elements thus exhibit the cheap Indian labour and take away large sums of money in the form of dividends. One need not say that foreign capital has not done any service to the industrial development of India. The foreign capitalist no doubt bore the losses in the primary stage and has added to our national wealth. The only point is that we have had a bitter experience of it and if we need foreign capital, we should obtain it by borrowing it from abroad instead of allowing others to exploit our resources thereby tolerating the economic penetration of India*. We can easily take foreign capital as loan as no foreign control takes place. On the other hand we can employ our natural resources to the best of our capacity. The consideration that should guide us are the return on capital and the rate of interest. Foreign capital without foreign management and foreign control are really conducive to the economic well being of the country. For example, the Dominion of South

*India in comparison with Japan has suffered from the limitation that her use of imported capital has carried with it outside control over the choice of investments and hence over the general trend of development. G. E. Hubbard. Eastern Industrialization and its Effects on the West p. 273.

Africa has practically liquidated all British holdings in their gold mines and there is no reason why India should not follow suit

In order to hasten the pace of industrialization and shortening the period of consumer's sacrifice and for having the required capital goods, it is suggested that we may take the help of external capital. This can really be borrowed only as a loan on equitable terms.

A study of the well-marked tendencies of the present times clearly shows that we will not be able to get sufficient supply of capital goods so easily. Further, the foreign industrialists are anxious for partnership but the present writer feels that on any day we should not allow this partnership because unequal combination is always dangerous to the weaker side.

In the meanwhile let our industrialists realize that the foreign capitalists have understood that the days of their exclusive privilege to exploit Indian resources and markets are over and therefore there must be a new policy and the new policy is to make friendship with their Indian counterparts and to associate them with concerns which will really be Indian in name and foreign in outlook. Not only this, they enjoy State protection against foreign competition. There is no short road to

success. Our industrialists have got to take a decision and it is to be seen what their decision will be *

Hussain Analogy Quoted

In the meanwhile the best plan would be to utilize our sterling accumulations for the development of our public works and the provision of social services. For the nationalization of key industries and the development of public utilities, we can borrow money in the money market. In other words, we can adopt the system of low interest and long term loans abroad. Let us not forget the way in which the Russians could finance all their plans for economic development. They did not have fixed capital in the beginning, nor did they expect any aid from abroad. As Professors Wadia and Merchant point out

'Its modern economy has been built up out of production goods rendered possible by limiting the consumption of the masses and involving heavy sacrifices upon the people for a period.

* A. Gandhiji said in 1945 'Big merchants capitalists industrialists and others speak and write against the Government but in action do as well and even profit through it—although the profit may amount to say five percent against the Government's ninety five.' It is high time we take a census of foreign capital in India. It is good the Eastern Economists referred to this need in a recent issue and it is hoped public opinion will assert itself. Gandhiji's warning to the Indian industrialists too is very timely.

There is no reason why India cannot adopt the same methods in 1946 when Russia could do so as early as in 1917. We may have our ideological differences with Russia but we can certainly adopt their methods provided they are good and in the interests of the masses.

Conclusion

Thus for the industrial development of India, we may require foreign capital, technical and assistance. The point is that we must secure them on terms best suitable to us and which conform to accepted business and commercial principles. Further, they must be amenable to our control. The resolutions adopted by the National Planning Committee on this subject are both timely and dignified. The committee while appreciating the need for the rapid industrialization they are that many of our industrial, mineral and other concerns are dominated by foreign capital, control and management. They have entrenched themselves on the soil by adding the words 'India Limited'. The National Planning Committee observed,

'In the case of key industries, involving the use of secret processes, which would not otherwise be available to the country, foreign participation in ownership and management may be permitted,

subject to the approval of the State under certain conditions."

There is no attempt to drive out of the country foreign enterprise and in the case of industries of national importance no foreign-capital should be allowed to be invested This is perfectly a sane attitude, because in the new economic order, we can not allow the cosmopolitan financiers to undermine our economic progress.

CHAPTER III

LABOUR UNREST IN INDIA

Recently Pandit Jawa ar Lal Nehru, speaking at the Delhi Provincial Political Conference gave an account of the Labour troubles in the country. While admitting that there had been grievances in every case of strike, he said that each day of strike lessened the national wealth. His view is that the country is facing a serious shortage of goods, our anxiety must be to step up production. To quote but one example, the recent strikes in the textile mills have affected the production of cloth to such an extent that we have been forced to import cloth from Japan even though we have all the conditions to producing the clothing materials sufficient for our requirements. Organised labour is necessary for the successful prosecution of the various development schemes. A correct and appreciative lead to labour consistent with the interests of labour itself and the country is the greatest need of the hour.

While these are good sayings, one is afraid that they do not go far enough. We must consider the economic pattern of society as it exists at the present time and see whether there are proper

incentives in various sectors of economic life. There was a time we used to consider the industrialists as the trustees of people's wealth. But considering the economic situation, as it exists at the present time, we find that it is otherwise. The farmer who is producing food crops should not be made to sell them at a price which is not able to meet even the expenses of production and at the same time enable the man who grows tobacco to make huge profits. We give starvation wages to agricultural labour and allow Tata deferreds to give a dividend of Rs 130 on a share of rupees 20. The textile industry made huge profit of more than 350 crores of rupees, and we find that the position of textile labour has not materially improved. The position of the industrial worker is miserable. The progress of industrialism is not to be measured in terms of wages and profits but in terms of human suffering. It is rightly said, "deep in the back-ground of the slums, the flames are spreading". The industrialists must be made to realise their duty to the workers in the matter of food, clothing and shelter.

If we just dive deep into labour unrest and economic ailments of our industrial civilization, we find that at the root of the malady of insecurity, uncertainty, etc., lies production for profit. One really feels that more than ever before there is a great need for the transformation of existing economic

order. What is needed at the present time is a sympathetic understanding of our economic problems and a desire to face facts boldly and deal with them wisely. Evidence is not lacking that part of the labour unrest is due to the realisation on the part of the labour that his standard of living is miserably low.

We have necessarily to consider what is wrong with our economic life. If we just consider a province like Bombay there were more than 500 strikes last year. It is calculated that in the course of past 21 months, there were nearly one thousand strikes, involving 12,50,000 workers and loss of 55,00,000 working days, consequently there was dislocation of economic life, drop in production, loss to labour and inconveniences to the public at large. It is no use thinking that these were engineered by vested interests to discredit the Provincial Government. Even the school-master in some provinces has decided to give up the piece of chalk and strike work. It may at once be said that they pitch their demands so high that if they are accepted in toto, the country's economy is bound to be shattered.

We must understand the psychology of strikes and to understand the causes of industrial unrest which cannot be engineered by mere political

pretext. Indeed, they cannot be brushed aside lightly on the plea that they are inevitable in the post war transition economy. But since the strike epidemic has affected even the clerical workers and the middle grade salaried people, we have to consider the matter seriously. In some cases, of course they may be due to the fear that their standard of living may go down in cases they are not able to get the salary at war time scales.

We cannot afford to forget the steep rise in the cost of living. With 1934-39 price level as the base, we find that the living index of the worker has only 100 just before the war, now it has shot up to even 300 in some provinces. Further the quality of article received by workers has also deteriorated and many essentials cannot be got at controlled rates. Hence the cost of living index may really be many times higher than the index numbers provided by the Government. After all when the industrialists and others are minting money, the various other groups are finding it impossible to make both ends meet. Wage earners are not able to get wages at par with the prices. Under these circumstances, one really wonders if there is any remedy to the situation. It is high time we remembered that it is no use declaring strikes illegal. We must try to root out the *raison d'être* of strikes. Thus it can be seen

that the unsatisfactory economic conditions, the disheartening disparity between wages and cost of living, and certainty about future are at the bottom of labour unrest in the country

The root cause of the labour unrest is due to the failure of Government in the past to evolve a definite policy aiming at stabilisation of prices at a level which maintains employment at the highest level and stabilises the cost of living index. Similarly the government have not been able to evolve a definite policy in regard to wages. Finally there was lack of a clear policy meant to give large employment to the people. It is really a sad commentary on the policy of the Government but one cannot but mention it.

When the workers find the prices of commodities are increasing, they demand more wages. They all the more demand it, because inflated personnel continues to be maintained on inflated salaries. When they get more money, they naturally become idle and demand more wages. At the present we find that shops are practically loaded with only fancy goods. It is really a social tragedy. The Government must follow a firm price policy in order to avert a social crisis. Until prices are stabilised, even industrialisation of the country becomes difficult. We have to stabilise prices because the price

level is getting out of control. What the workers want is an improvement in the standard of living and removal of hardships. The workers are at present discontented and disillusioned and they are feeling that they have to seek their own salvation. Wages and prices have to adjust themselves to a reasonable level if the situation is to improve.

In England and America, while the wages have been raised, the cost of living has not gone up much higher than the pre-war level. While the workers in those countries are trying to have a higher standard of life, we in India are struggling against a further deterioration in our already low standard of living.

7

Referring to agricultural prices we have to say that more than ever before there is a great need to stabilise agricultural prices. The committee appointed by the Government has made several recommendations on the actual working of the policy. Here again price support policy cannot be substitute for radical reforms in agriculture which we have to undertake if the primary producers, lot is to be improved. Let us also remember that the cultivation can no longer depend upon only cloth, kerosene, salt and gur. It means we must enable them to reap the benefits of an industrial civilisation.

It may at once be said that any desired level of agricultural prices can only be sustained as an integral part of a steadily expanding economy. Stabilisation of agricultural prices can only be secured by a suitable fiscal and monetary policy designed to secure not only a steadily rising price level but also a high level of employment and industrial policy. Thus it is desirable to maintain a fair amount of stability in the general price level. In India, this problem is beset with a number of difficulties because we must decide upon what is a fair price, which is fair to the producer as well as the consumer. Here a pausing reference may now be made to the need for raising the real wages of the worker. It may be mentioned that the employers and ultimately the State can help the workers to provide the necessary amenities like house children's food, clothing, etc., at a reasonable price. The employer may lose a little but the workers will feel happy and they would never take recourse of strike. Similarly wages should be fixed not only according to the nature of work but also according to the needs of the worker. If a worker has many children, a separate allowance should be given to them. After all, children are national assets and the Government should look to their comforts. In addition wages, must be fixed in relation to the cost of living at a particular place. In all these matters there is a need for Permanent Pay Commission,

consisting of employers' and employees' representatives so that there will be no hear burning

In the mean while attempts are being made to introduce labour legislation in various provinces. It is good that attempts are being made to constitute works committees for different occupations so that much of labour unrest can be avoided. For example in matters relating to adjudication, arbitration, etc we can simplify the procedure and prevent the collapse of industrial structure at this critical juncture. After all, one should not forget to remember that we have now no principle of wage determination, with the result that the strike epidemic is spreading like wild fire. The recent postal strike has indeed emphasized the need for an overhaul wage structure. Unless we hold the increased cost of living, we cannot control the demand for increased wages. The Eastern Economist has rightly pointed out the strikes are a visible symbol of a demoralised and discredited administration.

Another problem which has got to be considered is the question of housing of industrial workers. It is good the Bombay Government have realised that it must do everything in its power to improve housing condition in co-operation with all those who have an interest in or responsibility for the matter. It may be pointed out in this connection that

co-operation between the Government, employers and the employees is indispensable. After all, the great need of the hour is a comprehensive scheme for solving the problem of housing. It may be interesting to note here that the Government of Hyderabad has taken time by forelock by evolving a scheme for building houses to the labourers at a cost of about 300 rupees so that they can live in hygienic surroundings. It may be noted that this is also one of the ways of meeting post-war depression.

A word may be said about social security. The *raison d'être* of any social security plan is the necessity of and "equitable distribution of the profits and burdens, gains and hazards of an industrial civilization."

After all no country can progress if the hazards are to be borne by those who are least able to bear them. It is good the Congress Ministry of Bombay has included the protection of the working class against social hazards like sickness, oldage, unemployment, etc. in its programme. Equalisation of the purchasing power of the different social classes is indeed the *sine qua non* of industrial progress. The contents of social security according to the committee in the U.S.A. are defined thus: Security for employment, security of reasonable standards of working conditions, security of income

while unemployed, security of retirement income, security of recreation, mental and hospital assistance and finally security of one's family in the case of one's accident, invalidity, ill-health or even death India is badly in need of a social security plan because of the inequitable distribution of our national income on the conditions created by the War Even though according to Dr V K R V Rao's calculation, our per capita income is Rs 65 - per annum, we find that it is so unequally distributed that one percent of the population monopolizes 33% of our national income 33% enjoy 33% of the national income while the remaining 66% of the population have to be content with the remaining 34% This statistical calculation of national income based on average hardly gives us the idea of the quantum of economical welfare In fact, we have to consider the real economic welfare of the masses that is why several people say that the problem of distribution has got to be considered while planning the economic development of India Let us hope that very soon the social security plan prepared by Prof Adarkar will become a *fait accompli* The present writer would say that we must give priority to a minimum wage policy, then have a sickness insurance scheme financed by contribution from the employers, employees and the State and finally have the unemployment insurance scheme Several people say

that our country is poor and it is not possible to have all these luxuries, but let us remember that unless we consider the urgent problems of the life, and the welfare of the working class, which has now as much as a major force in society, will not be able to have industrial peace. It may also be mentioned that instead of piece-meal legislation we must have a co-ordinated plan because half measures are useless.

There are other major problems like nationalisation of key industries and control of other industries and in all these matters, the Central Government can see that there are common standards of welfare and employment in all the provinces. That is why many people feel the need for a strong Central Government in India, and the Cabinet Mission has not succeeded in achieving this idea.

The need for obviating unmistakable signs of fatigue like absence, increase in accidents has been felt by the Government and the factory executives, that is why reduction in the hours of work has been proposed to alleviate fatigue. It is said that where week end rest pauses are given from Friday evening to Monday morning it has a marked effect on the general outlook of the workers. Rest pauses in the middle of the work when they can have a cup of tea is also advocated. This will

prevent loss of efficiency, weariness, and accidents. Similarly, the principle of music while you work when energy begins to flag. The employers must also launch welfare activities like good housing, mess facilities, free medical aid, libraries, schools, etc.

It will be of interest to note that the Managing Engineer of the Rajkot State Electric Supply Co has already been able to work some of these ideas. For example a person getting an income of Rs 50 per month is insured for Rs 3 500/- and the company pays the premium. Free medical aid is given to the workers and their families. Not only this when the Doctor recommends milk, eggs or fruits, they are given free as long as they are necessary. The Managing Engineer Rai Bahadur A C Das tells me that statistical data has revealed that the worker who is suffering from chronic anaemia has been able to gain three to four lbs per month when supplied with a cup of milk and an egg every day. He says that this is an investment because it leads to increased efficiency and mutual goodwill. The present writer urges legislation requiring all establishment employing more than 500 workers to maintain a dispensary and a physician. Recently a new scheme by which the lower income groups are supplied with vegetables at a concession rate has also been launched. It is also hoped to build a

few rest houses away from the city so that convalescents can live there away from the dust of the city. The present writer cannot but say that it is high time for other industrial concerns to emulate this example.

The proper remedy, therefore, for the present labour unrest is to ensure a living wage for all, provision of proper housing, institution of social security measures etc. The post-war labour unrest is due to the worsening of our economic life. It is rightly said that justice delayed is justice denied. We have to meet plain facts. We must get into the psychology of strikes and try to understand the method in which we can prevent the further spread of this epidemic. In the present circumstances, with inflation running amock and the cost of living rapidly rising, strikes have become the only weapon. If we mean business, we must bring down the cost of living by stabilisation of prices which is not very difficult. Where there is will, there is way. Industrial peace and harmony are quite essential for the progress of industry and welfare of workers. Under the old system, there used to be personal contact between the employers and the employees. The old ties have now disappeared and impersonal relations and cash nexus have been substituted. This gives rise to several misunderstandings and strained relations. Indeed,

industrial peace and harmony between labour and capital are the two coefficients of industry which are the primary condition of progress

A great responsibility lies upon the workers as well. Unless they contribute to maximum production, unless they are disciplined and show respect to those under whom they serve, the future of our industry will be dense. After all, they are not mere wage earners but the citizens of the city.

Similarly, we have to consider the interests of agrarian labour.

The battle of peace lies ahead and unless there is a copartnership in industry industrial unrest is bound to increase.

CHAPTER IV

COTTAGE INDUSTRIES AND PLANNED ECONOMY

The paths of economic planning and transition from war to peace economy and the connected problems are not easy. They require great vision and capacity. The War has given opportunity for the development of our industries and made us realise our potentialities. A press report says that there is a move to effect retrenchment consequent the liquidation of war time requirements. Very recently Dr John Mathai, one of the signatories of the Bombay Plan and a former chairman of the Indian Tariff Board came to the conclusion that the total money expenditure would be six hundred crores below the original budget estimates. He rightly suggested the revival and expansion of our numerous cottage industries. Mr V L Mehta has also observed that cottage industries alone provide employment to our teeming millions.

The economist will be rendering a distinct service to the country by setting out clearly the economic problem facing the country. Plans and plans have become the order of the day. The country is flooded with plans which are surprising

in number and bewildering in their variety. We may argue "industrialise or perish" but large-scale industries cannot easily import capital goods and therefore cannot give us sufficient relief. If we do not take effective steps for the development of cottage industries they also stand the risk of being outed from the field. In fact we have to capitalise our opportunities. Even our Trade Commissioners say that the prospects for the production of the cottage industries like silk goods, fancy articles, mats etc are really encouraging since they are well received in foreign markets.

The large majority of our people live in villages. After all in a country like India we must consider the basic problem of food and clothing and the vital necessity of helping small men. The fundamental of planning should be relief of poverty by finding employment to the masses and equitable distribution of the goods produced. Statistics reveal that over 50 millions out of a total population of 400 millions earn their living out of cottage industries. Similarly out of 15 million industrial workers only 2 millions get their employment in large scale enterprises. The decentralised character of cottage industries provides employment to the workers at their own homes. One cannot fail to remember the vast treasure of workmanship to be found in the remote villages of India.

Just at the present time India is confronted with the problem of shortages. There is food shortage, cloth shortage and what not. Population is tremendously on the increase with the result that an actual Malthusian situation is prevailing in India. The present writer was perhaps one of the earliest of the Indian economists who emphasised the need for developing our cottage industries. We must also remember that in every province there must be a planning commission to consider which of the industries are to be supported. Having taken a decision we should safeguard them against machine competition. They should be so organised that they may fit into our national economy since many of them provide a subsidiary occupation to our agriculturists. The problem of finance, research, marketing, etc., have also to be considered so that we can produce goods at a cost and return comparable to those of other methods of production. I may here at once say that I am not against the development of largescale industries. Having had first hand experience of the working of the All India Village Industries Association, Wardha and having worked on the economics of cottage industries, I am of the opinion that since our principle economic problem is unemployment and underemployment of a large section of our population we must support industries which give employment to our people and which do not require much capital. Our peculiar economic

problem has to be solved in a practical way. We cannot multiply Bombay and Calcuttas. The extent of machanisation and the size of the industrial plan depend upon the relative scarcity and cost of labour and capital. We have scarcity of capital and not labour in India.

It is a pity that even though we are having acute cloth shortage we are not taking proper steps to develop hand spinning and handweaving even though we do not require much outlay equipment. In fact cotton is grown in all parts of India and one can spin either on the Takli or the Charkha. Dr. Rajendra Prasad once observed that if we spin for atleast two hours a day we can be self sufficient. It was estimated that if 14 out of 47 millions spin for two hours a day the entire clothing requirements of Madras can be met. Further it affords the agriculturist with a profitable subsidiary occupation. The income cannot be insignificant when we remember that the per capita income is hardly Rs. 65 per annum and that too is inequitably distributed. The All India Spinners Association with its capital of above 80 lacs is able to employ more than 4 lacs of artisans and with the same capital invested in textile mills we can hardly employ 20,000 people. Thus Gandhiji's attempt in this direction is not a mere fad but is a practical attempt to relieve the poverty of the people. We can

develop paddy husking as a cottage industry. We can understand centralisation for efficiency but in this case we find that by adapting the decentralised methods of production we can increase the output by 10% because rice loses 10 of its weight when it is polished. From the point of view of nutrition the rice when polished loses 82% of its nutritive value. There is lack of minerals and vitamins in polished rice. Rice mills also add to the problem of unemployment as can be seen from the following table —

Place	Method	Amount of Paddy treated in mds	No of persons employed	Persons that can be employed if rice home-pounded
Bulsar	Home			
Gujrat	Pounding	3½	5	5
Bardoli	Rice Mill			
(Gujrat)		105	5	150
Guntur	Rice Mill	360	40	515

It would be clear that as the size of the mill increases its capacity to displace human labour also increases.

It is not possible in this brief article to refer to the need for developing other cottage industries like oil-pressing, paper making etc. But suffice it to

say there is no meaning in taking oil seeds from villages to a central place and distributing oil again to the villagers. The reader is referred to the valuable literature published by the All India Village Industries Association for further detail.

¹ Cottage industries require little capital, running expenditure and skill. Thanks to Gandhiji we have realised the need for their resuscitation. Let us hope that the popular ministries will implement the economic policy for which they all along stood. Let me once again repeat that the real India lives in the villages. It is needless to add that Indian States should also take positive steps.

CHAPTER V

LOCATION OF INDUSTRY IN INDIA

It is a matter of common knowledge that in several highly industrialised countries of the world, the problem of industrial concentration has reached an acute stage. For the matter of fact when new factories were set up without judging their locational advantage and repercussions of further concentration, new problems have been created. The dangers of excessive concentration are increasingly recognised. Considerations of strategy, social costs, policy of full employment of resources and labour force have really made us realize the need for dispersal of industry. Indeed, it is a good sign of the times we have appreciated the fact that economically as well as socially, control of location will contribute to the progress of the country.

Considerable attention is given to this problem in foreign countries. Not only this, the social and economic problems created by it have been studied by several commissions and research organisations.*

* A Royal Commission under the chairmanship of Sir Montague Barlow was appointed in England in 1931 to study the problem.

It is really a pity that this problem has not been considered in its proper perspective. There is, of course, one reason, we had a late start on the path of industrial progress but if we just consider the conditions in industrial cities like Calcutta, Bombay, Ahmedabad, Kanpur, Delhi, and Nagpur etc., we find that industrial concentration has already reached alarming proportions. Some of the evils of urbanisation have long been evident. If this tendency is allowed to grow unchecked it would be no wonder, if at a later stage it becomes impossible to check the evil. After all the cure at present is easy and it is good that this problem finds mention in the statement of post-war industrial policy of the Government of India. A time has come when the industrialists, the economists and the Government should consider this problem.

I

Factors Affecting Localisation

Students of general economic theory can easily remember that by localisation of industries we mean the concentration of particular industries in different parts of the country. An industry is said to be localised in a particular place or area where different firms dealing in the same commodity are concentrated in that particular area. For example, the jute industry is localised near Calcutta while the cotton textile industry is more or less localised

in the Bombay Presidency We can easily see that a manufacturer chooses a place where he has to spend less for manufacturing a commodity Secondly, he also considers the problem of transport costs He has to consider this because all the factors which influence localisation of industry refer to raw materials, suitable labour, sites and services, access to market and finance It is not necessary to refer to these factors in detail because these are almost self explanatory One may however say that, a few other causes like patronage of the Royal Court has the greatest influence in the location of particular industries The location of the muslin industry in Dacca and the silk industry in Murshidabad were not a little due to the patronage of the Royal Court It may, however, be added that when once an industry gains the momentum of the start, firms begin to settle down there because the locality possess a reputation for producing that particular commodity The watches of Switzerland have acquired such a reputation that new firms naturally are established in Switzerland so that they can take advantage of the trade mark 'Swiss Make'

One can say that the most important factor is the transport relations as between raw materials and markets This accounts for the concentration of the industries in ports and commercial centers It may, however, be added that the localisation of

each industry depends upon the presence of a particular state of factors.

II

Evils of Industrial Concentration

In spite of the advantages of localisation like industry gaining reputation, labour acquiring hereditary skill, subsidiary industry springing up in the locality, promotion of the use of specialised machinery and development of banking institutions, it does not mean that it has no disadvantages in the event of a depression taking place in the localised industry, the lack of diversification of industry accentuates the evil effects of unemployment.* Excessive specialization and dependence of a few industries carries with it grave risks particularly at times of depression. In case there is diversification of industry, since all the industries are not affected, we can easily reduce the suffering of the people. That is why people advocate varied nature of industrial activities. Further, if the products for a particular industry are not in demand, the workers are likely to suffer. There is another fact to be considered. Several people are questioning the wisdom of allowing labour to move from place to

* To the extent that local unemployment is affected by the location of industry the effects of unemployment can be regarded as effects of the location of industry. The location of industry

place.¹ We can easily see the people go from very long distances to work in industrial centers. The point is whether it is not desirable to decentralise production, taking advantage of the principle of regionalism. In this way we can restrict the growth of too large aggregations of the people. It has been rightly remarked, the social and economic disadvantages of large concentrations were patent even before the war, while the strategic significance of industrial location was underlined as never before during the Second World War.² Social problems to which excessive specialization has given rise to have been many

After all if we just take into consideration our own country we find that industries were first concentrated in ports since they could easily secure an overseas market. After the British established their sway in India there was brought about an economic disequilibrium following the decline of hand-crafts. For a long time Bombay was an industrial center because it had excellent transport relations, was the center of raw cotton market for export and the railway rates policy also helped ports like Bombay. Not only that, it was a long with

1 It is often usual to several writers to refer to traffic congestion which increases as the population moves further away from the main city. This involves a lot of waste because even journeys take a lot of time in addition to trouble, and loss of real income.

2 B. C. Ghose, Industrial Location page 3

Calcutta the seat of the managing agents. For a long time, industries were concentrated in ports. Unfortunately the distribution of industries in India is characterised by excessive concentration in a few cities. It is said that more than half the number of factory workers in India are found in the two cities of Calcutta and Bombay. Thanks to the growth of commerce and transport and abundance of business ability, new industrial centers have come to the forefront in the interior. This is perfectly in tune with what is happening in countries like the U S A and England. Dr Lokanathan has rightly pointed out that 'this breaking down of local concentration, the relative decline of highly developed areas, and the development of formerly backward areas are not without compensating advantages. It is desirable to secure for each country a more equal geographical distribution of economic life'.

One need not of course say that the distribution of industrial activity in India is uneven. The Second World War no doubt accentuated industrial concentration. After all, industries should be suitably located with special reference to geographical and economic factors. The state should control location because it is an essential corollary of the

policy 'of discriminating protection. After all a good deal of waste of money can be avoided in this way. India is a country of long distances and so the problem before us is easy. It is how raw materials, power resources and marketing centers are brought together. As it is, they are not properly harnessed. The present writer may here mention that there is a lot of disparity in the industrial development of the various regions. The tendency has been for the dispersal of industry particularly from British India into States *

III

Economic Significance of the Problems

If we just consider the economic significance of this problem, the evils of industrial concentration have become far too apparent. The advantages of agglomeration have at once become the disadvantage. In addition to what has been mentioned in the previous paragraph it may also be stated that excessive concentration leads to industrial erosion because fresh land in some parts is used for industrial purposes while other parts are neglected. So far as the social aspects of this problem are concerned, it is a matter of common knowledge that it creates several new social issues. It has

* This fact was emphasised in Location of Industry in India PUBLISHED BY THE ECONOMIC ADVISER to the GOVERNMENT OF INDIA

serious repercussions particularly in the direction of housing and health. It is stated that in addition to over crowding in "chawls," we have also to consider its moral effects. Statistics reveal that 74% of the population of Bombay lives in one room tenements. Every one sixth person in the city lives in conditions over crowding which are prohibited by the existing law. Adequate shelter against sun and rain is the primary need of human life. Statistics reveal that the average floor space per person even in 1937 was only 27 sq. ft. (and it must be much less now), while in Sholapur it is only 24 sq. ft. Another aspect is the relation between death rate and housing condition. The greater the crowding the higher is the death rate. The time for inaction delay is past and a beginning should be made. Let it be remembered that much of the labour unrest in India is due to the consciousness on the part of the workers that his housing conditions are deplorable. As one writer has pointed out 'under fed like animals, without light and air the industrial worker in India is one of the most exploited of all in the world of industrial capitalism'. The high mortality in industrial towns is due to the fact that concentration has taken place not only in a haphazard manner but long before any body could think of them.

It is really a pity that even though lip services

is paid to the principle it has more often been violated in practice. The Second World War has only accentuated the forces of concentration because the old cities alone were expanding like anything unlike in other countries where new industries were started in new centers as well. But in India only the old industries were expanded and because they were all located in urban areas, one can easily say that urbanisation of the worst type took place. Over-crowding has gone into enormous sizes. In addition to it, it has been rightly observed "nearly 80% of the increase in employment since the war broke out is distributed in the Provinces of Bombay, Bengal, U P, the Panjab and Delhi where already large industrial development had taken place".

This makes us feel that we are proceeding just in the opposite direction. In England dispersal of industry is noticeable. This has been the shifting of industrial life from the north to south and to the south east. The same tendency is noticeable in the U S A but in India the war has only added to the inequality. There was no attempt on the part of the Government to set up new industries in new centers which would have been able to bring about a more even distribution of industry. Apart from the need for a balanced economy one may also

refer to the need for considering the strategical factors. Dispersal helps us to avoid the risk of attack by sea and air.

IV

Need for Regional Planning

Thus the need for dispersal of industry becomes self evident. India is a vast continent by itself and only regional planning helps us to raise the standard of living of the people. We have also to remember that the benefits of the economic development should be shared by all the regions. This is the best way of not only giving opportunities to the various parts of the country but also minimising inequalities of income. That is why it is rightly said that a regional distribution of industry is the sine qua non of successful planning. The chaotic growth of cities without planning has to be deplored. It does not mean that all industries are amenable to wide dispersal. The economics of each industry has got to be considered by the National Planning Authority and suitable steps should be taken in this direction. India is a country of long distances when we argue that industries tend to be localised within easy reach of the markets it necessarily means that particularly in a country like India industries must be decentralised. With the development of communications and transport

it becomes possible. Not only this, attempts are being made to reduce our excessive dependents on coal as a source of power. If opportunities for generating Hydro electric Power in U. P., C P., Kathiawar and states like Jaipur are utilised, they will exercise a strong influence in the dispersal of industrial production. The present writer has elsewhere referred to the great possibilities of storing water in the Kathiawar hills which should be co-ordinated in some regional form. He even suggested that states, large and small, should agree mutually to the Regional Control of the water resources *

Lessons from the T V A

It may not be out of place to refer to the T V A example in the U S A. which has attracted the interests and aroused the speculation of all thinking minds in the world of science economics and politics. It represents an economic policy of hope, and expansion in which the Government would play a dynamic part. Let it be remembered that Industrial development cannot proceed along artificial Government boundaries. It must depend upon the Geography of raw materials, power, and markets. In other words, the various Provinces and States have to be co-ordinated, if the development

* Economic development of Rajkot State Report of the Post War Reconstruction Committee Page 7

because we can have suitable location of industry only when there is regional planning.

V

Need for Dispersal of Cotton Textile Industry

If we just consider the location of various industries, we find that the factors influencing location are not the same. In the case of the Cotton Textile Industry, we find that, it is concentrated in the Bombay Presidency, even though it depends upon distant centers for the supply of raw materials. Transport relations and distribution of productive forces have always played an important part. Statistics reveal that remarkable changes have taken place between the years 1921-29. The state of expansion has been much greater in Indian States. The States as a whole have increased their share in number of workers from 7% in 1921 to 16% in 1930*. It is also to be noted that further concentration of industry in the same areas is sure to aggravate regional inequalities. It will be better if further expansion of the industry takes place in areas which have a relatively smaller share. Let it be remembered that the Cotton Mill Industry has an inherent tendency to be attracted towards markets rather than towards the sources of raw materials. It is, therefore, capable of considerable dispersal.

* Indian Cotton Textile Industry (1914 Annual Editor M. P. Gandhi) Page 51

between regions* It is good that the various parts of the country have realised the need for the dispersal of the industry For example between 1921 and 1939, the number of workers employed in this industry increased from 35 lacs to 59 lacs The number of workers in the various provinces also increased as under —

Bombay	52,000
Madras	40,000
U P	24,000
Bengal	19,000
C P	7,000
C P States	26,000
Baroda	18,000
Mysore	12,000
Bombay States	8,000
Hyderabad	5,000

One can easily say that the dispersal force is actually working and it has great potentialities for expansion If we in our plans for the economic development of India the first effects will be seen in the increased demand for cloth It is hoped that this industry will develop in new centres which

are congenial for its development. Any further concentration of the industry in the existing regions is not desirable. This is all the more necessary because India is a country of long distances and transport costs play a dominating part in location.

VI

The Case of Sugar Industry Examined

Its location is determined by accessibility to raw materials. It is unfortunate that till now it has not followed any sound theories of location. After protection was granted to this industry, U P and Bihar came to specialise in this industry. Out of 163 sugar factories in India, as many as 10½ are located in these provinces, which employ 75% of the total number of workers engaged in the industry*. Madras and Bombay have only 11 factories each. A time has come when there must be a diffusion of the industry. Even though generally transport relations particularly in respect of natural resources like power, consumers market etc. play an important role, still in the case of this industry accessibility to raw materials which weight losing play an important part. It is really a

* The provincial distribution of sugar mills in India in 1914 was as follows —Bengal 9 Bihar 31 U P 73 Punjab 8 Madras 11 Bombay 11 Assam 1 Orissa 1 N.W. & P. 11 Indian States 21

wonder that even though it gives higher yield in tropical regions, still it has not made any headway in those regions. It passes one's imagination why provinces like Madras and Bombay should import sugar, particularly when they can produce it with advantage. In this way we can save transport costs and difficulties which we have realised as a result of the conditions created by the war. States like Hyderabad have realised the significance of the problem and developed the industry. More than ever before, there is a great need for a well planned territorial distribution of industry along modern trends of economic thought*.

VII

Need For control of Location

It is not possible in this chapter to refer to the need of the dispersal of other industries like the iron and steel industry, chemical industry, the paper industry, the tanning industry etc. These also easily lend themselves to industrial dispersal. Each industry is, of course, to be taken on its own merits. Now that hydro-electric power is going to be made available for industrial production, and communications and transport developed in addition to labour

force being widely distributed over the country, there is no reason why there cannot be regional distribution of industry. Instead of multiplying or developing the already congested towns and cities, it is better to plan towns of an optimum size. This involves some form of public control in the location of various industries. After all, public control is necessary because it affects our national life. It should be open to the state to develop new areas on the advice of a central authority like Industrial Development Commission or an Industrial Trust Fund. It will be interesting to note that the Hyderabad Government has set up an Industrial Trust Fund which not only considers the problem of the location of industry but also supplies the necessary finance for the development of industries. Such an organisation should have negative as well as positive functions. While it should have the authority to refuse licenses for industries to be started in already congested areas it should also have the authority to attract industries to new areas so that there can be *balanced development of the country*. Let it be remembered that the factors of location have to be considered afresh with the change of conditions and circumstances so that the industrialists stand to gain and not to lose by such control. It is unfortunate that economic adviser was against the right of the government to determine industrial location, according to him it would be extremely dangerous

to the state to arrogate to itself the location of individual undertakings. But he seems to forget the fact that location of industry is a National responsibility.

VIII

Concluding Observations

There is a great need for regional studies so that we can find out the industrial possibilities of the various areas. We have also to study the methods and machinery of control. After all, only a National Government can decide this matter. As one writer pointed out "industrialists are not opposed to locational regulation but they are opposed to indefiniteness in this regard". We have to bear in mind the transport relations particularly in regard to raw materials, power and markets. If hydro electric power is made available in areas which are away from coal it will be possible for us to bring about dispersal of industry. Planning should be on regional basis in which case industrial development cannot proceed according to artificial Government boundaries. For example the waters of the river Tungabhadra pass through Madras, Mysor and Hyderabad and only a Regional Commission can see that the interest of the whole

region are furthered. The present writer would even suggest the creation of Central Planning Commission to advise the Government in the matter. After all the development of our resources on regional basis is a matter of common concern to the whole country and cannot be confused with sectionalism. The state of the future will have to give up the policy of laissez faire and take positive measures in order to prevent the evils of industrial concentration. In all these matters, the co-operation of the Government, industrialists, and the economists is essential. Of course, public opinion should assert itself.

APPENDIX

THE INDIAN COTTON TEXTILE INDUSTRY

The Second World War has not been an unmixed evil to the Indian cotton textile industry. While the prices of cloth rose up consequent on exports and demand of the military authorities, there were labour troubles. Wages increased and dearness allowance had to be sanctioned. It was not easy to import machinery, cotton and mill stores, so that the industry could expand in response to increased demand. There was an increase in taxation leading to a higher cost of production. On the whole, the war ushered in a period of comparative prosperity for the Indian cotton textile industry.

While it has shown undoubted progress, it cannot be said that the position of the industry is stable. There is bound to be competition from other countries which we should not fail to consider. Further, during the period of profits, we should take steps to build up adequate reserves. Indeed, we should not fritter them away in declaring high dividends.

Adapt Methods Of High Commerce

A study of the organization of the cotton textile

industry in Japan shows that we should also adapt the methods of high commerce to the purchase of cotton and selling of goods. We should have a common sales agency. This will enable us not only to withstand foreign competition but will also help us to capture foreign markets. Experts agree that, not only should we improve the quality of the cloth but we should diversify the output. We should now concentrate our attention on mechanical and industrial textiles, including material for wire insulation, material to cover rollers for sizing yarn, etc. That the equipment of a number of cotton textile mills needs replacement needs no mention as it was already emphasized by Mr. Harold Hill Technical Expert, Howard and Bullough Ltd., who visited India a few years ago. It will be interesting here to note that the Indian Tariff Board inquiry of 1927 laid down several standards, and according to them, a number of our plants can be declared as uneconomical. It may be noted that in a country like Japan, even a mill which was started ten years ago is declared as uneconomical and no agreement is necessary to plead for the replacement of machinery.

Defective Organization

The other evils which are often referred to are ignorant and otherwise busy directors, incompetent and greedy managing agents and defective financial

arrangements To my mind, the organization seems to be very defective as each mill has its own arrangements for the purchase of cotton, machinery, selling of output, etc The functions of the Millowners' Association, which are at present concerned with the safeguarding of their interests against labour and representation of their grievances to the Government, should, indeed, be widened If we again consider the organization of the cotton textile industry in Japan, we find that the Cotton Spinners' Association has control over the industry and the remarkable progress of the cotton textile industry is not a little due to its driving force. Similar changes took place in England also during the last six years More than ever before, there is need for the rationalization of the cotton textile industry, which means overhauling its entire organization

Need For Research

There should also be constant research into problems like mill finance, export trade, labour problems We should also know from the Trade Commissioners how far we will be enabled to export cloth to other countries. Thus the period of transition, so far as this industry is concerned, is a period of setting its house in order and preparing itself for an orderly and peaceful transition from war to peace economy. Provided there is a

favourable fiscal policy, progressive attitude on the part of the millowners, and patriotic and sympathetic attitude on the part of the consumers, there is no reason why the cotton textile industry should not have a bright future

Labour Unrest

It is well known that there has been a lot of labour unrest in the cotton textile industry. Some people say that if we dive deep into labour unrest and economic ailments of our industrial civilization, we find that at the root of the malady of insecurity, uncertainty, etc., lies production for profit. According to the latest number of the *Labour Gazette*, the labour disputes in 1945 were twice the number of those in 1939. The number of persons involved in 1946 was 20 lakhs. The total loss to industry in man days increased in 1946 by 213 per cent. Under these circumstances it is no wonder that there was a dislocation of economic life, drop in production loss to labour and inconvenience to the public at large. There is no doubt that labour pitches its demand so high that, if they are accepted, the country's economy is bound to be shattered. That is why Gandhiji observed that strikes are a danger to the freedom that is coming to India. Pandit Jawaharlal Nehru, in the course of an address at the Delhi Political Conference while admitting that there had been grievances in every case of

strike, said that each day of strike lessened national wealth. At a time when the country is passing through an acute shortage our anxiety should be to step up production. The recent strikes in the textile mills have affected production of cloth to such an extent that we have been forced to import cloth from Japan even though we have all the conditions necessary for producing cotton textiles. A correct and appreciative attitude to labour consistent with the interests of labour itself and the country is the greatest need of the times.

It is well known that the *per capita* consumption of cloth has decreased from 17 to 10 yards and this too is not available in the countryside. India is now passing through a strike wave and on the basis of monthly production up to August it is estimated that production will decline thus .

Cotton cloth Not less than 600 million yards

Cotton yarn 200 million lbs

While the Socialists suggest a policy of ceiling on profits, profit sharing, living wage, share of workers in management, quick settlement of disputes, one has to say that it is better for us to start with the minimum without 'much ado about nothing'. We must beware of ideologies and evolve a plan to repair India's battered economy. It has

to be viewed from a realistic point of view. The Hon'ble Mr Bhabha did well in emphasizing the need for a realistic approach to our economic problems. While the capitalists should consider themselves as the trustees of the people's wealth, labour also should not indulge in unavoidable strikes. It is, of course true that workers do not strike for pleasure. Indeed, the cost of living has gone so high that one does not know what to do with one's meagre income. One may, therefore, refer to the need for minimum wage. As Shri Gulzarilal Nanda once observed 'This is a crucial period in the history of the country. To dislocate the productive organization of the country in these days is really to strike a direct blow at the life of the nation.'

Minimum Wages In Textiles

But we must understand the *raison d'être* of strikes. The root cause of labour unrest is the failure of the Government to evolve a definite policy aiming at stabilization of prices at a level which maintains employment at the highest level and stabilizes the cost of living index. Here one may refer to the need for raising the real wages of the workers. Fixation of minimum basic wages in the cotton textile industry has been an important feature of the labour policy of the Provincial Governments. The Industrial Court in Bombay fixed Rs 30 per

month as basic minimum wage for an unskilled worker while in Madras it has been fixed at Rs 26 for a month of 26 working days. It may be mentioned that in a province like Madras, the basic wage of nearly half the number of workers does not exceed annas eight per day and these are perhaps the lowest in the textile industry of the country. Really speaking, we should secure a living wage to the workers and narrow down the regional wage differences. It is also desirable that wages should be fixed in accordance with the needs of the workers. For example, if he has more children, a separate allowance should be given because children are national assets. We have, of course, to consider the upgrading influence on the entire wage structure of the different textile units in the country. This will no doubt add to the wage bill of the country. The Bombay Industrial Court observed that a basic wage of Rs 30 'is essential for giving the bare necessities of life', but this means that the millowners will have to spend two crores more on the wage bill. Ultimately, the incidence falls on the poor consumer who has to pay higher prices. It is really a pity we have not yet been able to realize the neck to neck race between wages and prices. Indeed, we have to stabilize the prices and reduce the cost of living. We have also to maintain a balance between the various sectors of our economic life, viz.,

consumers, industrialists, and workers. The need for a complete and correct account fixation of prices may also be emphasized.

The Problem of Cloth Prices

The recent conference of the representatives of provinces and States held in Delhi reviewed the cloth situation in the country and considered methods of stepping up of production and standardization of products. Now that controls will continue at least for some time, we should try to see that the common man is helped. It is stated that the price of coarse cloth will go up by three annas in the rupee while the prices of fine cloth will go up only by a half. Somehow or other one feels that, even after several years of experience, the Government have not yet been able to evolve a correct policy. Textile control, it is said, is still largely a control by millowners in their own interests. Indeed the millowners should be satisfied with the profits they have already made during war-time and should not sabotage efforts in the direction of cheapening cloth and increasing production. While we may put lack of machinery, difficulty of replacements, labour unrest and lack of skilled personnel as handy excuses, still one has to refer to the fact that mills' consumption of cotton increased by 29 per cent, labour increased by 22 per cent, while production increased only by 9 per cent. They have not taken

kindly to the threeshift system which they say is unworkable

A Plea For A Correct Policy

The Government can no longer follow a *laissez-faire* policy. While the Tariff Board observed that no protection need be given to the cotton textile industry, the Government replaced protective by revenue duties. Similarly, the organization of the cotton textile control requires a thorough study. The earnings of the quota-holders, it is said, go up to Rs 10 crores and one really wonders why we should allow middle-men. The present writer would wish to say that while justice is to be done to the various interests including the millowners, we should give up the unscientific method of dealing with controls, which may sometimes be "irrational and haphazard."

After all, we cannot kill the goose that lays the golden eggs. The cry for the nationalization of the cotton textile industry is gathering volume even though the present writer feels that, before the Government decides on this issue, an opportunity should be given to the millowners to show that they are also interested in the economic development of the country. More than ever before, there is great need for having a reasonable accord between production, wages and prices. This will not be difficult provided the Government acts with the

necessary vigour and the millowners show the necessary spirit of co-operation. We cannot blame any one party for the present cloth muddle. But after all, it is a cent per cent national industry and with the implementing of the various plans for the economic development of India, there will be more demand for cloth. Under these circumstances let the transition problems of this industry be considered in a careful and sympathetic manner and let us also remember that, in the post-war period, there will be keen competition from foreign countries. To sum up,

(1) We should organize the cotton textile industry on the methods of high commerce and emulate the example of other countries like Japan.

(2) There should be constant research into various problems connected with the industry.

(3) We should consider the *raison d'être* of labour unrest, and the problem of minimum wage legislation.

(4) We should check the neck-to-neck race between wages and prices.

(5) The problem of cloth prices has to be considered in its proper perspective.

(6) Finally a plea is made for co-operation between various interests so that the common man can be helped.